

BB  
SECU

05036386

MISSION

OMB APPROVAL

OMB Number: 3235-0123  
Expires: January 31, 2007  
Estimated average burden  
hours per response . . . 12.00

SEC FILE NUMBER

8-29577

ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III

## FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 ThereunderREPORT FOR THE PERIOD BEGINNING 01/01/04 AND ENDING 12/31/04  
MM/DD/YY MM/DD/YY

## A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:

FINANCIAL NETWORK INVESTMENT CORPORATION

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

200 N SEPULVEDA BLVD

SUITE 1200

EI SEGUNDO

(No. and Street)  
CA

90245-5670

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

(Area Code - Telephone Number)

## B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

Ernst &amp; Young LLP

(Name - if individual, state last, first, middle name)

600 Peachtree Street Ste 2800

Atlanta

GA

30308

(Address)

(City)

(State)

(Zip Code)

## CHECK ONE:

- ☒ Certified Public Accountant  
☐ Public Accountant  
☐ Accountant not resident in United States or any of its possessions.

FOR OFFICIAL USE ONLY

PROCESSED

MAR 23 2005

THOMSON  
FINANCIAL

\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).

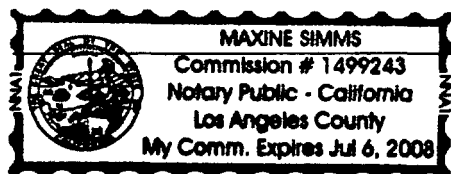
SEC 1410 (06-02)

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

TLA  
3/14

## OATH OR AFFIRMATION

I, WAYNE B LARSEN, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of FINANCIAL NETWORK INVESTMENT CORPORATION, as of DECEMBER 31, 2004, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:



[Signature]  
Signature  
Controller  
Title

Maxine Simms  
Notary Public

This report\*\* contains (check all applicable boxes):

- ☒ (a) Facing page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Income (Loss).
- ☒ (d) Statement of Changes in Financial Condition.
- ☒ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- ☒ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☒ (g) Computation of Net Capital.
- ☒ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☐ (i) Information Relating to the Possession or control Requirements Under Rule 15c3-3.
- ☐ (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-3 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

**FINANCIAL STATEMENT**

**Financial Network Investment Corporation**

*For the year ended December 31, 2004*

*with Report of Independent Registered Public Accounting Firm*

# **Financial Network Investment Corporation**

## **Financial Statement**

**For the year ended December 31, 2004**

### **Contents**

Report of Independent Registered Public Accounting Firm	1
Audited Financial Statement	
Statement of Financial Condition	2
Notes to Financial Statement	3

## Report of Independent Registered Public Accounting Firm

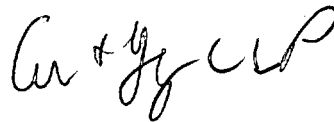
Stockholder and Board of Directors  
Financial Network Investment Corporation

We have audited the accompanying statement of financial condition of Financial Network Investment Corporation (a wholly owned subsidiary of FNI International, Inc., which is an indirect wholly owned subsidiary of ING America Insurance Holdings, Inc.) as of December 31, 2004. This statement of financial condition is the responsibility of the Company's management. Our responsibility is to express an opinion on this statement of financial condition based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of financial condition is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of financial condition, assessing the accounting principles used and significant estimates made by management, and evaluating the overall statement of financial condition presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the statement of financial condition referred to above presents fairly, in all material respects, the financial position of Financial Network Investment Corporation at December 31, 2004 in conformity with U.S. generally accepted accounting principles.

Atlanta, Georgia  
February 15, 2005



**Financial Network Investment Corporation**  
**Statement of Financial Condition**  
**December 31, 2004**

**Assets**

Cash and cash equivalents	\$ 17,565,414
Cash segregated for regulatory purposes	120,000
Securities owned, at market	217,320
Commissions and concessions receivable	14,907,766
Accounts receivable	3,052,472
Due from affiliates, including \$362,208 under tax allocation agreement	425,176
Prepaid expenses	224,038
Deferred income tax asset	5,921,075
Deferred compensation plans investment	12,396,206
Other assets	2,996,249
Total assets	<u>\$ 57,825,716</u>

**Liabilities and stockholder's equity**

**Liabilities:**

Securities sold not yet purchased, at fair market value	\$ 399,051
Commissions and concessions payable	17,525,659
Accounts payable and accrued expenses	4,928,294
Due to affiliates, including \$1,109,451 under tax allocation agreement	3,223,604
Deferred compensation plans accrued expenses	12,762,803
Subordinated debt	4,000,000
Other liabilities	739,075

Total liabilities	<u>43,578,486</u>
-------------------	-------------------

**Stockholder's equity:**

Common stock, par value \$.001 per share; 5,000,000 shares authorized; 1,000,000 shares issued and outstanding	1,000
Additional paid-in capital	3,816,500
Retained earnings	10,429,730

Total stockholder's equity	<u>14,247,230</u>
----------------------------	-------------------

Total liabilities and stockholder's equity	<u>\$ 57,825,716</u>
--	----------------------

*The accompanying notes are an integral part of this financial statement.*

**1. Nature of Business and Ownership**

Financial Network Investment Corporation (the "Company") is a securities broker-dealer engaged in the sale of securities to the general public through a national network of registered representatives. The Company is also a registered investment advisor providing investment advice and financial planning services to clients residing in the United States. The Company is a wholly owned subsidiary of FNI International, Inc. ("FNII" or "Parent") and has certain transactions with other subsidiaries of FNII. FNII is a wholly owned subsidiary of ING Retail Holding Company, Inc. ("ING RHC") and ultimately of ING America Insurance Holdings, Inc. ("ING AIH"). ING AIH is a wholly owned subsidiary of ING Groep N.V. ("ING"), a global financial services holding company based in The Netherlands.

The Company is a fully disclosed broker-dealer and clears all securities transactions through an unaffiliated clearing broker. The Company is exempt from Securities and Exchange Commission ("SEC") Rule 15c3-3. The Company does not carry customer accounts and is not required to make the periodic computation of reserve requirements for the exclusive benefit of customers.

**2. Summary of Significant Accounting Policies**

*General*

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

*Cash and Cash Equivalents*

The Company considers deposits that can be redeemed on demand and highly liquid investments that have original maturities of three months or less when purchased to be cash and cash equivalents.

*Cash Segregated for Regulatory Purposes*

Cash of \$100,000 at December 31, 2004 has been deposited in an escrow account at Pershing, LLC as part of a related clearing agreement.

Cash of \$20,000 at December 31, 2004 has been deposited in an escrow account at National Securities Clearing Corporation.

*Securities Owned*

Securities owned are bought and held principally for the purpose of selling them in the near term and are classified as trading securities. Trading securities are carried at market value.

## Financial Network Investment Corporation

### Notes to Financial Statement

---

#### *Income Taxes*

Deferred income tax assets and liabilities result from temporary differences between the tax bases of assets and liabilities and their reported amounts in the financial statements that will result in taxable or deductible amounts in future years.

#### *Securities Sold, Not Yet Purchased*

Securities sold, not yet purchased, are recorded at market value. Market value is generally determined by quoted prices on national exchanges. If listed market prices are not available, fair value is determined based on other relevant factors, including broker or dealer price quotations. Securities sold, not yet purchased represent obligations to deliver specified securities sold short at prevailing market prices in the future to satisfy these obligations, generally within three business days.

#### *Accounts Receivable*

Accounts receivable are shown at their net realizable value.

#### *Financial Instruments with Off-Balance Sheet Risk*

The securities transactions of the Company's customers are introduced on a fully disclosed basis with a clearing broker-dealer. The Company holds no customer funds or securities. The clearing broker-dealer is responsible for execution, collection of and payment of funds, and receipt and delivery of securities relative to customer transactions. Off-balance sheet risk exists with respect to these transactions due to the possibility that customers may be unable to fulfill their contractual commitments. In this event, the clearing broker-dealer may charge any related losses to the Company. The Company seeks to minimize this risk through procedures designed to monitor the creditworthiness of its customers and to ensure that customer transactions are executed properly by the clearing broker-dealer.

#### *Liabilities Subordinated to the Claims of General Creditors*

At December 31, 2004 and during the year then ended, the Company had liabilities subordinated to the claims of general creditors.

The subordinated borrowings are available in computing net capital under the SEC's uniform net capital rule. To the extent that such borrowings are required for the Company's continued compliance with minimum net capital requirements, they may not be repaid. It is the Company's intention not to renew the secured demand note collateralizing agreements due to June 30, 2005 and September 30, 2005.

### **3. Income Taxes**

The results of the Company's operations are included in the consolidated tax return of ING AIH. ING AIH and its subsidiaries each report current income tax expense as allocated under a consolidated tax allocation agreement. Generally, this allocation results



# Financial Network Investment Corporation

## Notes to Financial Statement

---

in profitable companies recognizing a tax provision as if the individual company filed a separate return and loss companies recognizing benefits to the extent of their losses.

Deferred income taxes have been established by each member of the consolidated group based upon the temporary differences within each entity. Significant components of the Company's deferred tax assets and liabilities at December 31, 2004 are as follows:

Current:	
Federal	\$ 3,849,038
State	<u>1,111,608</u>
	4,960,646
Deferred:	
Federal	(1,456,187)
State	<u>(573,776)</u>
	<u>(2,029,963)</u>

Management has evaluated the need for a valuation allowance for the deferred tax asset and believes that the deferred tax asset will more likely than not be realized. Accordingly, no valuation allowance has been recognized.

### 4. Contingencies

The Company is party to a number of claims and lawsuits/arbitrations arising in the course of its normal business activities. Although the ultimate outcome of these claims cannot be ascertained at this time, it is the opinion of management that these matters, when resolved, will not have a material effect on the Company's results of operations or financial condition.

### 5. Operating Leases

In the normal course of business, the Company enters into certain noncancelable lease agreements, mainly for office space and equipment. The office space agreement requires the Company to provide for property taxes, normal maintenance, and insurance.

Future minimum lease payments at December 31, 2004, were:

2005	\$ 83,668
Total future minimum lease payments	<u>\$ 83,668</u>

### 6. Employee and Registered Representative Benefits

#### *401(k) and Pension Plans*

The employees of the Company are covered by a variety of employee benefit plans (both 401(k) and pension) that are administrated by affiliates. The different plans have various

eligibility standards, vesting requirements, and guidelines for matching. The Company had no separate employee benefit plan in 2004 and relied on its affiliated companies to cover all eligible employees. All benefits that were paid by these affiliates were charged back to the Company for reimbursement.

*Deferred Compensation Plan*

The purpose of the deferred compensation plan for registered representatives is to provide participants with an effective means of deferring a portion of any commission and fees they are entitled to receive. Participants may elect to have all or a portion of their deferred compensation account indexed to rates of return on a variety of investment options, including a fixed rate option. The Company credits interest to these accounts based upon the actual rate of return of the underlying investment choice. This plan is unfunded; therefore, benefits are paid from the general assets of the Company. However, the Company has made investments in options that mirror amounts and elections of the participants, of which \$12,396,206 is included as an asset on the statement of financial condition and is carried at market value. The total of net participant deferrals, which is reflected as a liability on the statement of financial condition, was \$12,533,281.

**7. Related Party Transactions**

FN Insurance Services, Inc. and FN Insurance Services of Texas, Inc., affiliated companies, act as agents in collecting insurance commissions in certain states.

During 2004, the Company engaged ING Brokers Network, LLC ("ING BN"), an affiliated company, ING AIH, and ING RHC to provide administrative services.

Amounts reported in the statement of financial condition related to transactions and agreements with affiliates may not be the same as those recorded if the Company was not a wholly owned subsidiary of its Parent.

**8. Net Capital Requirements**

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (Rule 15c3-1), which requires the maintenance of minimum net capital. The Company has elected to use the alternative method, permitted by the Rule, which requires that the Company maintain minimum net capital, as defined, equal to the greater of \$250,000 or 2% of aggregate debit balances arising from customer transactions, as defined. The net capital rule of the "applicable" exchange also provides that equity capital may not be withdrawn or cash dividends paid if the resulting net capital would be less than 5% of aggregate debits. At December 31, 2004, the Company had net capital of \$5,124,339, or an excess of \$4,874,339 over required net capital.